

**STATE UNIVERSITY SYSTEM OF FLORIDA
BOARD OF GOVERNORS
Project Summary
University of South Florida
Grocery Store Project Pre-Approval**

Project Description:

The proposed grocery store (the "Project") is to be approximately 29,000 square foot building with approximately 145 parking spaces. The Project will also provide landscaping and pedestrian improvements.

The Project will be designed and constructed by Publix Super Markets, Inc., (the "Owner" or "Publix"). The University of South Florida ("USF" or "University") will enter into a 21-year ground sublease (including construction) with the Owner to design, construct, finance, operate and maintain the Project on the USF campus. The Owner retains the Project throughout the 21-year term of the ground sublease. The Owner will also have the option of six (6) five (5) year renewals, so long as the Owner is not in default. Thus, the potential term is 51 years, expiring in 2067. The ground sublease is subject to the approval of Board of Trustees for the Internal Improvement Trust Fund, which holds title to the property on behalf of the State of Florida. USF's lease with the state expires in 2073.

The Project is consistent with the master plan of the University and was approved in the General Appropriations Act passed during the 2015A special session. USF also believes that it provides a desired amenity and student employment opportunities.

Once USF's negotiation with the Owner is complete and agreed to under the ground lease, the University will be required to report to the Board of Governors Office how the final Project comports with the aspects of this Pre-Approval.

Project Site Location:

The Project will be located on USF's main campus entrance in Tampa located on the southeast corner of Fletcher Avenue and North Palm Drive. The site sits at a secondary entry point on the backside of the campus and contains minimal surface parking with the balance being undeveloped green-field property. It borders USF's Andros Housing complex on one side and Fletcher Avenue on the other side. USF believes the land (directly on Fletcher Avenue) is undesirable for

development of an academic facility due to being adjacent to existing housing facilities.

(See Campus Map)

Projected Start and Completion Date:

It is anticipated that construction will commence upon execution of the ground sublease in mid-February 2016 with final approval by the Board of Trustees on March 3, 2016 and Project completion scheduled in late 2017.

Project Cost:

The total cost of the Project is estimated at \$12.2 million, which includes construction costs of approximately \$7.5 million, site work costs of \$2.7 million, and other soft costs of \$2 million. Estimated costs do not include store equipment.

(See estimated Sources and Uses of funds.)

P3 Justification:

USF proposes to construct, finance, operate and maintain the Project utilizing a public-private partnership (“P3”). The benefits of the P3 structure include USF’s receipt of the amenity without incurring debt for the Project and receipt of revenue under the ground lease to support student success initiatives.

USF will not be required to provide any support for construction, operation, nor maintenance of the Project. Construction risk, operational risks and capital maintenance requirements are entirely born by the private partner under this P3.

Financing Structure:

The Project is expected to be funded with cash from the Owner and not with project debt. *No debt is being incurred directly or indirectly by the University. Additionally, the University is not obligated to provide any financial or operational support for the Project.*

Security/Lien Structure:

The Owner will receive a leasehold interest in the Project, which will revert to USF at the end of the lease term. The executed ground lease will include events of default with the University’s rights dependent upon the nature of default including but not limited to termination due to non-payment of rent.

Return on Investment: USF and the Owner will enter into a 21-year (including construction) ground sublease. The initial term is in compliance with the P3 Guidelines that allow for a 40-year term. However, given the six, five-year renewal options, the effective term of the lease is 51 years.

USF hired Colliers International Valuation and Advisory Services ("Colliers") to provide a Restricted Appraisal Report (the "Appraisal") in January 24, 2015. Colliers estimated that an annual achievable rent range would be \$4.50 to \$7.00 per square foot. The base rental payment negotiated by USF is approximately \$4.51 per square foot, on the low end of the range provided by the Appraisal. The University will receive an annual base rental payment from the Owner of \$130,000 per year, escalating 10% every five years based on improvement size of approximately 29,000 square feet. USF will receive approximately \$3 million over the 21-year lease term and \$10.4 million if all renewal options are executed.

There is no purchase option in the ground sublease for USF, however, the University will receive ownership of the Project at the end of the lease term or require the Owner to demolish the Project at its own expense.

Quantitative Demand for Project:

No financial feasibility/demand studies have been done by the University because it has no interest in the financial performance of the Project. There are two other grocery stores in what would be considered the University community near USF campus. However, due to the distance and volume of traffic on the intersections where these stores are located, walking or biking are unsafe and impractical options requiring a car to purchase groceries off campus. Since not all students have a vehicle some find trips to a grocery store problematic.

University Support of Project:

The Project costs will not be a legal obligation of USF or any of its Direct Support Organizations and *USF has not pledged its credit or committed any financial assistance toward the Project.*

Under the ground sublease, the Owner will submit Project plans to USF for approval. USF will review for compliance with USF building codes, regulations, and consistency with USF's Master Plan goals and

objectives. USF will also work with the Owner's architect and engineer to ensure the required permits are obtained. The Owner will pay USF a one-time fee of \$60,000 to cover the cost of processing permits and conducting inspections.

**Analysis and
Conclusion:**

Staff of the Board of Governors and the Division of Bond Finance has reviewed the information provided by the University with respect to the request for Board of Governors approval for the Project.

The Project will provide a desired amenity with no direct financial risk to the University in exchange for revenue to allocate toward student success initiatives and provide employment opportunities for students. The Project was legislatively approved in the General Appropriations Act passed during the 2015A special session.

As part of its review, the Board should consider whether having a grocery store on campus serves a legitimate need for the University and is adequate justification for the Project. Also, the Board should evaluate whether the loss of the property for the term of the lease is appropriate in light of other potential University needs and whether the University is receiving fair value for the ground lease given that the rent payment is on the low end of the appraisal.

Accordingly, staff recommendation is adoption of the resolution.